



South Africa's role in farmland investment funds in Southern Africa

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Context

- Land grabbing - top of the iceberg of wider dynamics, diverting attention from a dynamics of control over land-based activities/ production
- Africa as “the last frontier”; Southern/Eastern Africa is the first target for farmland investment
- Growing interest in farmland and agriculture from investment funds especially since the 2007-08 world food price crisis

What is the role of South African farmland investment funds in this process?

- The what and the how of these investment funds
 - Implementation into agriculture in South Africa and in the region
 - Characterizing elements
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- South Africa as an ideal case study – Presence and expansion towards Africa of farmland investment funds



Diversity of fund characteristics...

Fund constitution

- General partner/asset manager: fund manager (invests, manages, decides, supervises/implements)
- Limited partner/investors/shareholders (individuals, institutional investors –pension funds, insurance companies, banks...)

Governance structure:

- Fund status:
 - Closed funds: 8/12 years (equity fund, hedge fund)
 - Long term funds: without limited investment time (endowment fund, holding company)
- Contracts with investors
- Risk/return profil
- Direct management of the assets/ externalization (fund to funds)
- ESG concerns



...determining different asset allocation strategies in agriculture

Different agricultural assets:

- Trading agricultural commodities futures
- Investment in company shares (equities)
- Farmland

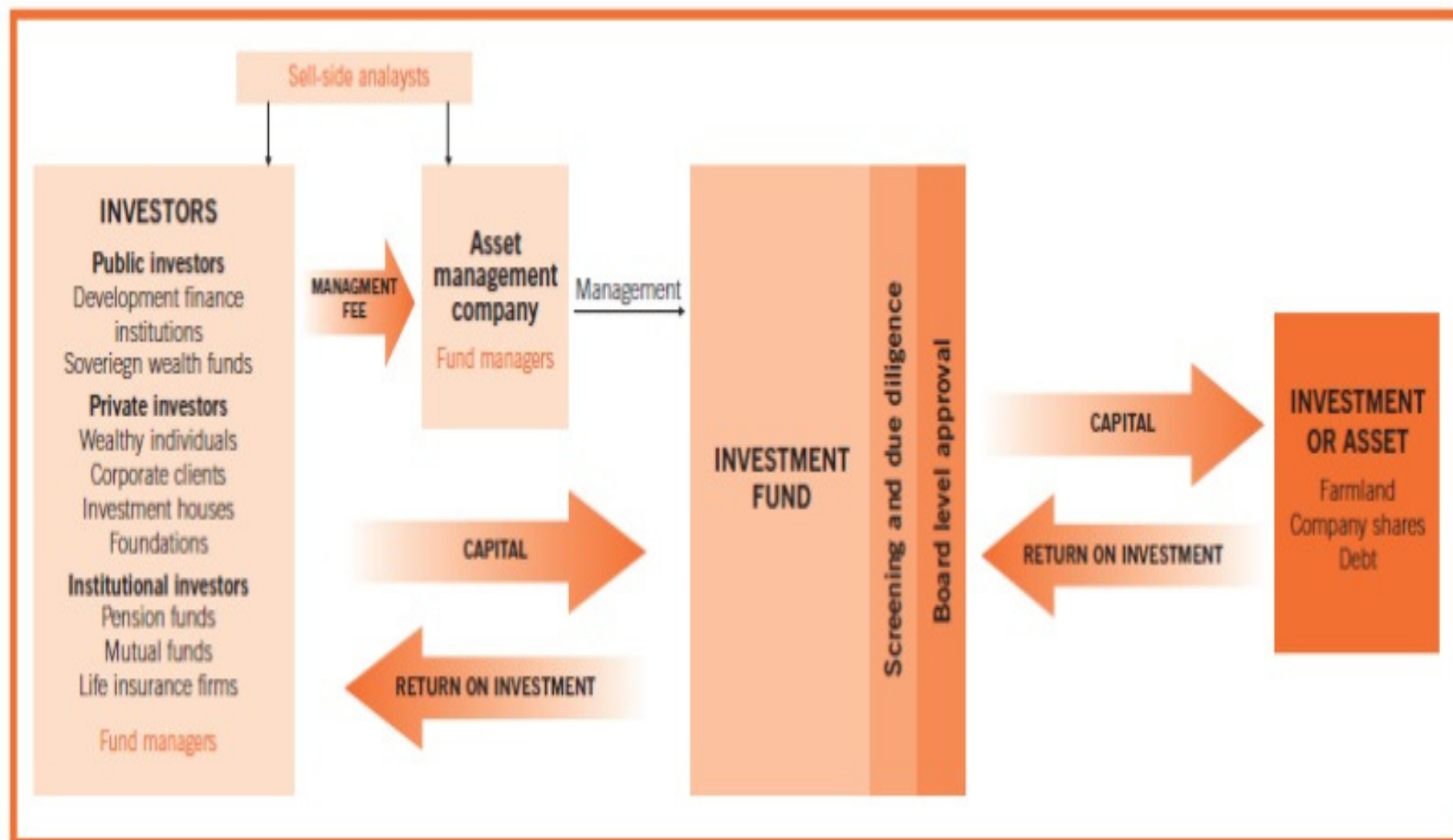
Different focuses on agricultural sector:

- Specialized funds /Hybrid funds: agriculture as a complementary activity (to mitigate risks related to others assets)

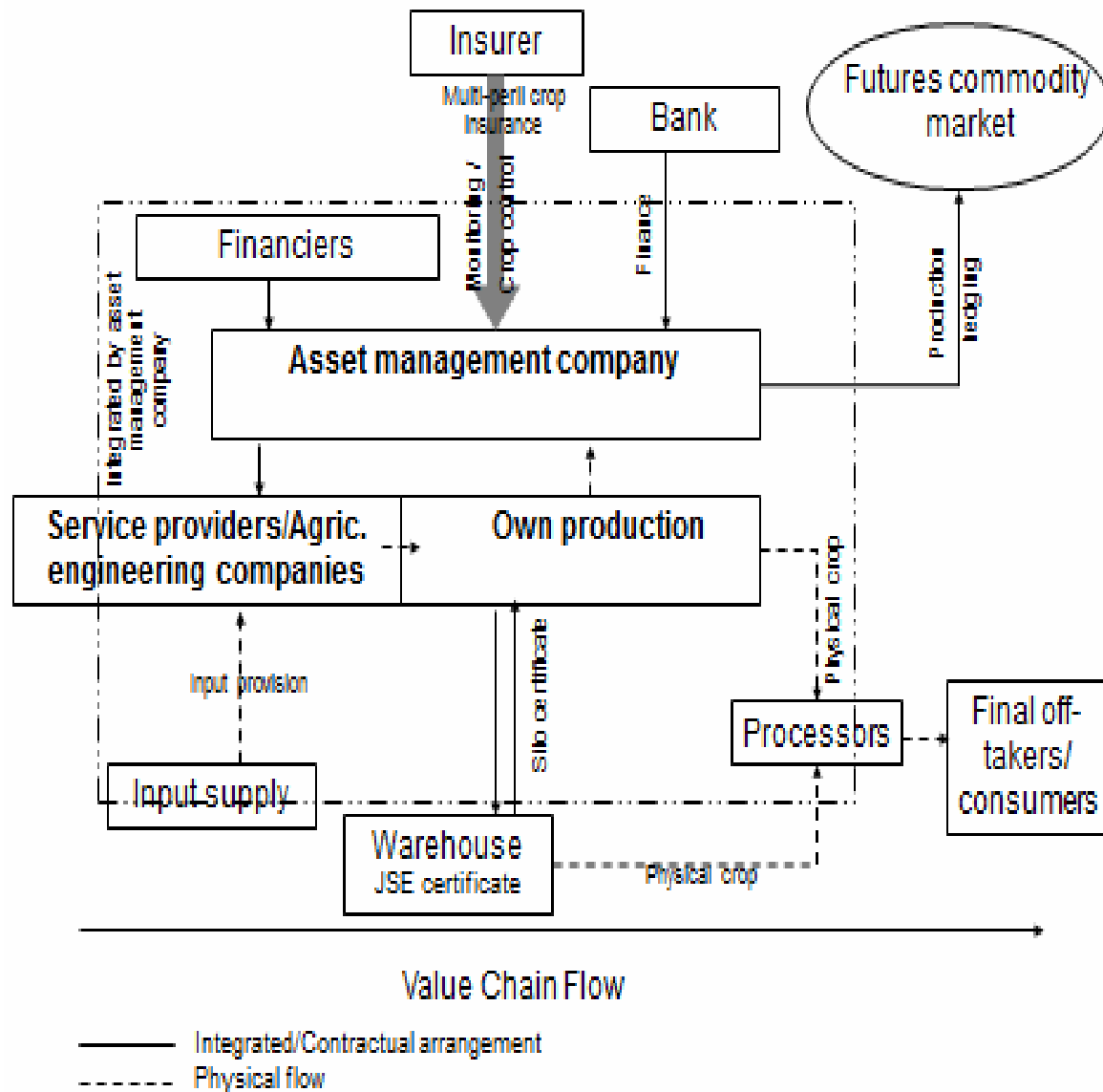
Size of this phenomenon ?

- 190 private equity firms investing in agriculture and farmland in the world (Buxton *et al.*, 2010)
- 15 agriculture specialized equity funds (\$2Bn) in Africa (USAID, 2011)
- 11 specialized funds in agriculture and agribusiness in South Africa: African agriculture land fund, Agri-Vie agribusiness fund, Futuregrowth agri-fund, Silverlands fund, Chayton atlas agricultural company, Pembani Remgro Infrastructure fund, RusselStone Group, BlackRock...
- Difficulties to evaluate: opacity, diversity of practices...

The investors/asset management company/investment fund relationship



Farmland investment funds' general model



- Price risk - managed through hedging on futures market SAFEX
- Production risk is covered:
 - by the multi-peril insurance (flood, drought...)
 - Geographical diversification to mitigate the risk
- Production by the fund or by an agricultural engineering company (through a management agreement)
- Farmer remuneration based on salaried position
- Precision farming (satellite monitoring)



Land vs/and agricultural production control strategies

Direct investment in land:

- Buying up land with the expectation of increased/fluctuating land and food prices
- The production can also be integrated in these strategies

Buying shares (or equities) in agricultural and agri-business enterprise and/or primary production:

- Enterprise restructuration/rationalization to then be refloated on stock exchange
- Minority or majority positions in the agricultural company which determine the type of control (on managerial structure or on the day-to-day operations)



Characterizing elements...

Agriculture as an asset

- Tend to be managed as any other sector (pro-innovation and rationalization conception or speculative incentive?)
- Funds are looking for a maximization of the “**shareholder value**” (the return to the shareholders)- other conception of agriculture production

Centralization of agricultural activities

- Centralization of decision making powers (thanks to sophisticated financial –silo receipt-, technical –satellite monitoring- and contractual – pre-crop contract- mechanisms)



Characterizing elements...

Integration

- Although centralized, some models are more or less integrated based on outsourcing of some activities (land lease) other are 100% integrated (from finance, inputs, to pre-prepared dishes)- macro-actors

Regional export of the model

- In several countries – Mozambique, Zambia, Tanzania, etc...
- Slower progress than in South Africa because based on well developed agricultural financial instruments (silo certificate, SAFEX)
- New adapted instruments/models are being developed: mobile silo, futures markets in Zambia (initiated by South Africa)
- South Africa as a stepping stone for Africa



Characterizing elements...

South Africa's role: What is a South African farmland investment fund ?

- South Africa hosts more and more fund managers/asset management companies because of its favorable legal and financial framework (SAFEX) and its specific experience and expertise in the agricultural and financial fields
- Service providers/agriculture engineering companies/farmers generally South African
- Funds are financed by international investors with often different segments registered in many countries

South Africa positions itself as the intermediary between regional farmland investment opportunities and international investors

2 contrasted examples

	African Agriculture Fund	Chayton Atlas agricultural company
Fund status	Closed fund (10 years)	Holding company
Capitalization	\$150M (fund raising target: \$300M)	?
Limited partners	Agence française de développement, Africa Development Bank, private investors	Zeder, Norfund, private investors
Fund managers	Phatisa fund manager (SA)	Chayton Africa
Investment strategy	Pan-African; companies along the value chain with a focus on primary agriculture (25%)	SADC; Agricultural lands, staple crop (maize, soja, wheat)
Investment cases	Golden Lay, Zambia (eggs-outgrowers scheme)	Chobe Agrivision, Zambia (6 farms : 4000ha)



Some concluding thoughts...

- We also note a strong participation of Development Finance Institution (World Bank Group, Overseas Private Investment Corporation) for the development of this funds (legal and technical assistance, financial support)
- At first glance, many farmland investment funds confronted to difficult implementation (ex. Jatropha project in Mozambique, etc)
- Are these farmland funds a sustainable way to invest in agriculture ?
- Are they importing a financial paradigm of agriculture which underestimates agriculture specificities ?



Thank You